The Oil Drum: Europe
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Ofgem Respond to Energy Review

Posted by Chris Vernon on May 14, 2006 - 12:26pm in The Oil Drum: Europe
Topic: Policy/Politics
Tags: electricity, gas, united kingdom [list all tags]

We are still waiting for the JESS Report. Steve Davies, JESS Secretariat promised it to us week commencing 01-May-06 yet it never appeared, then Malcolm Wicks himself told us from the floor of the house that it would be published week commencing 08-May-06 and yet we still haven't seen it.

In a similar vein however the Office of Gas and Electricity Markets (Ofgem) have responded to the government's energy review, the full document is available here.

The response considers UK gas and electricity, specifically addressing security of supply.

Ofgem see markets as key when it comes to energy security, able to deliver security of supply but only if there aren't external constraints on their operation like licences and permits. Ofgem fail to mention the most significant external constraint - resource depletion, preferring to concentrate on financial investment.

> Clearly it will remain important for the Government and Ofgem to monitor investment and the supply/demand balance to make sure that the energy markets are bringing forward projects in a timely way. The JESS Group, which produces regular published reports, provides an appropriate mechanism for keeping the situation under review.

It would appear that this "appropriate mechanism" has broken down over the last year.

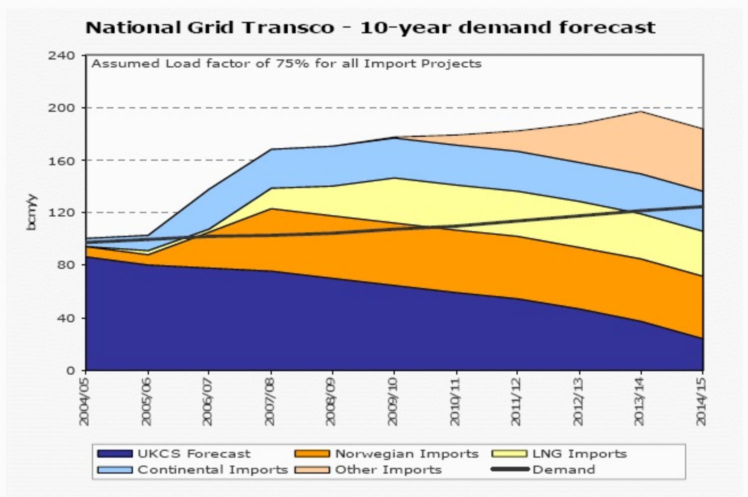
This comment highlights a concern I have running through this report:

> Production from the North Sea is now in decline. The market has responded by announcing plans to invest over £10bn in new gas import infrastructure. This will provide capacity to supply 94 bcm of gas by 2010, equivalent to 87% of forecast UK demand.

It mentions "capacity to supply" measured in pipeline and LNG import capacity. This is however only one part of the problem, security of supply needs two things, physical capacity to import (which this document suggests will be in place) and an exporter with the ability and willingness to export gas to the UK at a price we can afford. That latter point is not subject to rigorous analysis in this report. What use is import capacity if there isn't anything to import?

This graph illustrates the point:

Figure 3:2: Source of UK gas supplies 2010



Source: NG TYS 2005

Click to enlarge.

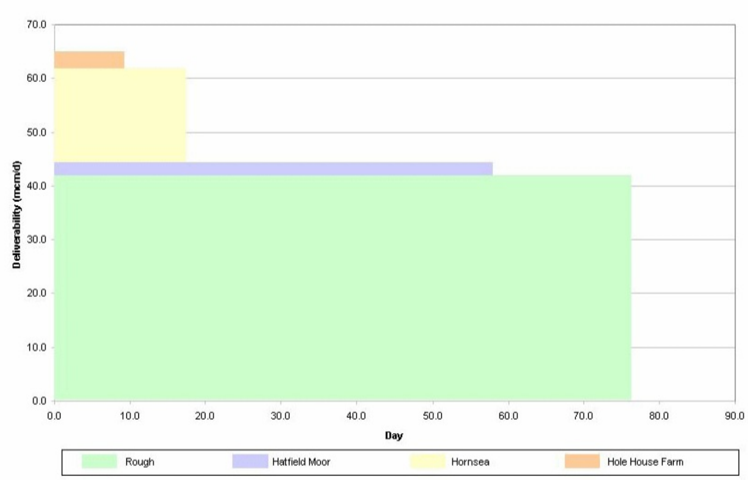
Whilst UK extraction is expected to decline, the imports are expected to remain unchanged. There seems to be no distinction between the capacity (size of pipe) and the actual volume of gas it is reasonable to expect to receive - is it reasonable to expect Norway to export 50bcm of gas to the UK in 2015 when UK indigenous extraction will have fallen by more than two thirds to just 30bcm a year? What consideration is being made of Norway's depletion and the impact on ability and willingness to export?

Can anyone suggest what "other imports" represents? Where is the UK going to import over 40bcm from in 2013/14 excluding Norway, Continental Europe or LNG?

Also note the forecast increase in gas demand by over 20% in the 10 years shown.

Here are two other graphs from the report, the first nicely illustrating the make up of UK gas storage. The Rough storage facility is the largest accounting for 82% of the storage capacity and provides 37% (when the 50mcm for ~5 days of LNG is also considered) of peak deliverability. The Rough facility still hasn't been fully repaired after the accident earlier this year.

Figure 1.5: Deliverability of storage facilities in GB

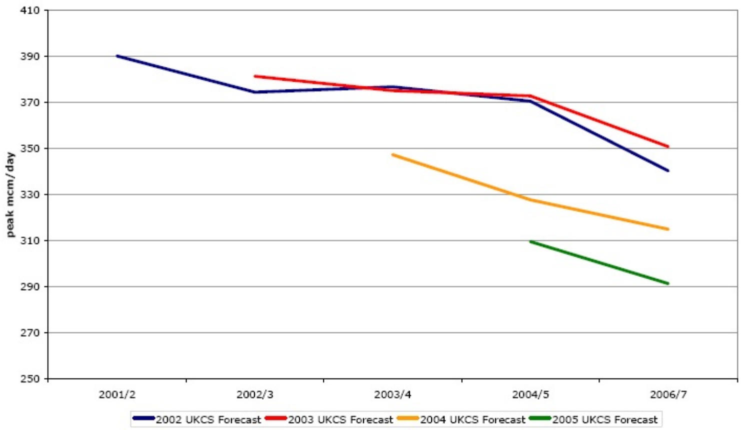


Source: Company press releases.

Click to enlarge.

This second graph illustrates the series failures in forecasting North Sea decline rates. It is this failure by the market of make accurate forecasts that Ofgem blames for the price spikes we have seen during the last two winters.

Figure 1.3: Comparison of UKCS supply forecasts balance (2002-2005)



Source: National Grid Ten Year Statements.

Click to enlarge.

Ofgem don't suggest this is a systemic failure of the market however:

> Whilst, therefore, it is the case that the market did not foresee the speed with which the deliverability of the UKCS would decline, there is no reason to believe that a central planning process would have had 'better foresight'. Moreover, now it is clear that there is a requirement for additional infrastructure, the market is responding with very significant infrastructure investments, including:
>
> - Interconnectors - 58 bcm/year by 2008;
> - LNG - 43 bcm/year by 2010; and
> - Storage - 5.4 bcm of additional capacity by 2010

When responding to the question of what further steps government should take to develop a market framework for delivering reliable energy supplies as we become a net energy importer over the next 20 years, Ofgem said:

> Despite recent concerns about high and volatile energy prices and security of supply, the Government should not make any significant changes to the existing market and regulatory framework.

Perhaps this is to be expected from the market regulator itself but it would seem that Ofgem believe we currently have the market framework to ensure security of supply over the next 20 years. I am not so convinced. It seems unlikely to me that the framework developed when the UK was a net exporter would also be optimal for the transition period and long term future as a net importer.